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FISCAL IMPACT STATEMENT

LS 6455
BILL NUMBER: HB 1125

NOTE PREPARED: Mar 25, 2008
BILL AMENDED: Mar 14, 2008

SUBJECT: Various Government Matters.

FIRST AUTHOR: Rep. Goodin
FIRST SPONSOR: Sen. Kenley

BILL STATUS: Enrolled

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Internal Revenue Code Reference Update:* The bill provides that for taxable years beginning after December 31, 2007, references in Indiana law to the Internal Revenue Code and related regulations refer to the law and regulations in effect on January 1, 2008.

Federal Economic Stimulus Refund Exclusion: The bill excludes from state adjusted gross income any amount of the credit (including an advance refund of the credit) that is provided to an individual under the federal Economic Stimulus Act of 2008 and included in the individual's federal adjusted gross income.

NFL & NCAA Tax Exemption: The bill excludes other nonbusiness personal property (other than mobile homes) from the definition of taxable personal property. It also provides that property, revenues, certain expenditures, and transactions of the NFL or the NCAA in connection with a Super Bowl or a men's or women's Final Four conducted after December 31, 2011, are exempt from taxation in Indiana for all purposes and that those events are exempt from the Marion County Admissions Tax. (Current law applies only to the Super Bowl that was described in a bid specification document dated October 2006.)

Media Production Expenditure Tax Credit: The bill caps the amount of media production expenditure income tax credits that may be awarded to all taxpayers for a state fiscal year at $5,000,000.

Sales Tax Exemption for Motion Picture Production Expenditures: The bill extends until December 31, 2011 (instead of December 31, 2008) the sales tax exemption for property directly used in qualified media productions.

Excise Tax on Non-Business Personal Property: The bill provides that recreational vehicles and truck campers are subject to an excise tax instead of the property tax on personal property beginning January 1, 2010. The bill permits the Department of Local Government Finance to adjust levies in 2010 to adjust for the effect of the elimination of property taxes on recreational vehicles and truck campers. It permits taxing units to apply for an excessive levy in 2010 to mitigate the effect of the elimination of property taxes on other nonbusiness personal property. It also permits the Department of Local Government Finance to adjust levies in 2011 to adjust for the effect of the elimination of property taxes on other nonbusiness personal property.

Sales Tax on Flying Lessons: The bill provides that a person taking flying lessons pays Sales Tax on the rental of the plane but not for the flight instructor's costs.

Utility Receipts Tax: The bill provides that for purposes of the Utility Receipts Tax, a sale of utility services is considered a wholesale sale if the utility services are natural gas and the buyer consumes the natural gas in the direct production of electricity to be sold by the buyer.

Cigarette Tax: The bill requires a cigarette distributor to be current in all listed taxes before a distributor's license may be issued or renewed. The bill also requires Cigarette Tax payments via EFT if the distributor purchases the stamps on credit.

Professional Tax Preparer Electronic Filing Requirements: The bill delays the imposition of penalties upon professional preparers who fail to comply with the requirement to file returns electronically.

529 Education Savings Plan: The bill provides that if a taxpayer makes a nonqualified withdrawal from a college choice education plan and is a nonresident who has no current tax liability, the Department of State Revenue shall bill the taxpayer for the amount of any tax credit to be recaptured. It amends the definition of "qualified withdrawal" for purposes of the tax credit for contributions to Indiana's College Choice 529 Education Savings Plan.

Earned Income Tax Credit: The bill reduces the state earned income tax credit for partial year nonresidents who have taxable income in other states.

Income Tax Withholding: The bill requires wage withholding payments and estimated tax payments for nonresident aliens to be computed based on the application of not more than one personal exclusion.

Tax Confidentiality: The bill permits the Department of State Revenue to disclose information concerning taxpayers to state and local law enforcement officials in Indiana when used for official purposes and requested by the proper authorities.

Tax Penalties: The bill imposes a penalty on certain individuals for failure to file an income tax return. It also provides that the penalties for bad checks issued to pay listed taxes also apply to payments made by credit card and electronic payments.

Late Excessive Levy Appeals: For property taxes first due and payable in 2007, the bill allows a civil taxing unit or school corporation to file a late excessive levy appeal based on a revenue shortfall that resulted from erroneous assessed valuation figures. It provides that the following do not apply in the county if an appeal is allowed: (A) The deadline for the department of local government finance to certify budgets, tax rates, and tax levies. (B) The deadline for mailing tax statements. (C) The standard tax due dates.

Property Tax Exemptions: The bill allows certain nonprofit limited liability companies to claim property tax exemptions for prior years. The bill also allows a church or religious society that meets certain requirements and that failed to timely file an application for property tax exemption for the 2003, 2004, and 2005 assessment dates to file retroactively for and be granted the exemption.

Amended Property Tax Returns: The bill allows certain taxpayers to claim interstate commerce exemptions for certain inventory for the 2004, 2005, and 2006 assessment dates by filing amended returns before March 1, 2008 and provides that the amended returns are considered to have been timely filed.

Fire Protection District Excess Property Tax Levy: The bill authorizes a property tax levy appeal to the Department of Local Government Finance by the Honey Creek fire protection district in Vigo County.

Legislative Intent: The bill adds a provision describing the legislative intent with regard to the 2003 enactment of certain personal property assessment procedures affecting integrated steel mills and the oil refining and petrochemical industry.

Economic Improvement Projects: The bill authorizes the use of revenue bonds and other methods to finance economic improvement projects.

Common Areas: The bill includes common areas shared by the manufactured homes or mobile homes within mobile home parks in the definition of residential property.

Refunds and Reconciling Statements in Marion County: The bill authorizes the auditor or treasurer of Marion County to mail refunds and reconciling statements for property taxes first due and payable in 2007 in the same envelope.

Extension of State Board of Finance Mandate: The bill extends the deadline for State Board of Finance action on a loan from the rainy day fund for qualified taxing units.

Loans to School Corporations: The bill authorizes certain Common School Fund and Rainy Day Fund loans.

Municipal Riverfront Development Project Areas: The bill allows certain towns to designate municipal riverfront development project areas.

PERF Minimum Payment: The bill provides that the minimum monthly retirement disability benefit under PERF is $180.

IPFW Bonding Authority: The bill provides additional bonding authority for the IPFW student services and library complex.

Commission on Disproportionality: The bill changes the due date for the report of the Commission on Disproportionality in Youth Services to the Governor and the Legislative Council from to October 15, 2008.

Area Health Education Centers: The bill requires the Budget Agency to allot and otherwise take the steps necessary to make available for expenditure and distribute to area health education centers before May 2, 2008, at least 75% of the amount appropriated by P.L.234-2007 for area health education centers for the state fiscal year beginning July 1, 2007, and ending June 30, 2008.

Warrick County STIF Study: The bill requires the Commission on State Tax and Financing Policy to study the feasibility of establishing a sales tax increment financing district in Warrick County to facilitate the establishment of a museum and education complex.

Indiana State University: The bill corrects language in a 2007 appropriation to Indiana State University.

Department of Natural Resources: The bill requires the Department of Natural Resources (DNR) to equalize the salaries of district foresters and natural science managers.

Vehicle Title Information: The bill provides that under certain circumstances, all information concerning the purchase of a vehicle must be completed on the certificate of title, and that the knowing or intentional failure to complete the information on the certificate is a Class A misdemeanor for the first violation and a Class D felony for the second or any subsequent violation.

Titling Off-Road Vehicles: The bill provides that under certain circumstances, certain motor vehicles titled outside of Indiana do not need an inspection for an Indiana title to be issued. It provides that a person who engages in the business of selling at least 12 off-road vehicles to the general public each year for delivery in Indiana must secure a dealer's license from the Secretary of State. It also repeals provisions exempting a seller of off-road vehicles from the requirements of a motor vehicle dealer's license.

Motor Carriers: The bill provides that certain motor carrier employers may provide an advance of wages and then take certain deductions from subsequent wages under certain circumstances.

Abandoned Vehicles: The bill provides that a police officer who finds or is notified of a vehicle or parts that are believed to be abandoned shall attach a notice tag stating that the vehicle or parts will be removed after thirty-six hours, if the vehicle is located on or within the right-of-way of an interstate highway or any highway that is designated as part of the state highway system under IC 8-23-4.

Motor Vehicle Excise Tax: The bill removes a provision in the motor vehicle excise tax law requiring excise taxes to be deposited in a separate account within a depository.

The bill also makes appropriations.

Effective Date: Upon passage; January 1, 2001 (retroactive); January 1, 2003 (retroactive); January 1, 2007 (retroactive); July 1, 2007 (retroactive); January 1, 2008 (retroactive); July 1, 2008; January 1, 2009.

Explanation of State Expenditures: *Excise Tax on Non-Business Personal Property* - The overall net impact projected for the state under the excise tax provision would be increased expenditures of $120,000 for the Bureau of Motor Vehicles (BMV) in FY 2010.

The BMV would incur additional costs related to the startup and maintenance of the new excise tax program. BMV startup costs are estimated at $120,000 in FY 2010 for software work. Ongoing expenditures for valuation guides, printing, and decals are estimated at about $3,500 per year, including the startup year.

Professional Tax Preparer Electronic Filing Requirements - Current law requires a professional tax preparer that files more than 100 returns in a calendar year to file these returns in electronic format. The bill waives this requirement if the taxpayer provides a written request that the return not be filed electronically. The bill also provides that returns filed under this waiver shall not be used in computing the 100 return threshold under current law for electronic filing. It is estimated that this waiver provision will increase the administrative costs of the DOR. The amount of any increase is indeterminable, and will ultimately be determined by the number returns that would have been required to be filed electronically but for the waiver provisions in this bill.

Municipal Riverfront Development Project Areas - The bill allows certain towns to designate municipal riverfront development project areas (MRDPA). The bill also provides that all provisions in IC 7.1 (alcoholic beverages) that apply to MRDPA's shall apply to areas designated by a town. This section expires December 31, 2011. Allowing towns that would otherwise be eligible to designate MRDPA's if the town were a city will increase the administrative expenditures of the Alcohol and Tobacco Commission (ATC). The amount of the increase is indeterminable. IC 7.1-3-20-16(d) allows the ATC to grant alcoholic beverage permits outside the statutory permit quotas to certain premises located within an MRDPA. The increase in costs to the ATC could be offset by the increase in permit fee revenue.

PERF Minimum Payment - The bill provides for a minimum monthly benefit of $180 to a retired PERF member with at least ten years of creditable service. The increases are based on the date of the member's latest retirement or disability and does not apply to benefits payable in a lump sum and are in addition to any other increases provided by law. The estimated increase in unfunded accrued liability for FY 2009 is $7.2 M due to the $180 monthly minimum provision. The increase in annual funding required is $550,000, representing 0.04% of payroll.

IPFW Student Services and Library Complex - This bill authorizes Indiana University, Purdue University at Fort Wayne (IPFW) to issue bonds for a student services and library complex provided that the bond principal, debt service reserves, credit enhancement, or other costs incidental to issuing the bonds does not exceed $16 M. This is in addition to any other previous bonding authority granted to the university for this project. Since this bonding authority is not eligible for state debt service payments, there is no fiscal impact for the state (the state authorized $24 M in the 2007 budget that was eligible for fee replacement.)

Area Health Education Centers - The bill requires the State Budget Agency to allot and distribute at least 95% of the $1.25 M that was appropriated in the FY 2008 budget for area health education centers. The bill requires at least 75% of the appropriation to be distributed to area health education centers before May 2, 2008, with an additional 20% to be distributed before July 1, 2008. The bill provides that the State Budget Agency may hold the remaining 5% as a reserve or may be distributed as determined by the State Budget Agency under standard allotment procedures.

Department of Natural Resources - The bill requires the DNR to equalize certain salaries of district foresters and natural science managers. "District forester" means any position on the state staffing table with a job code of "001LE2" and a description of "Forester Specialist 2". "Natural sciences manager" means any position on the state staffing table with a job code of "00ENS7" and a description of "Natural Sciences Manager E7".

As of February 22, 2008, there were no Natural Sciences Manager E7s on the staffing report. A Natural Science Manager is a PAT 1 position. Estimates below were based on increasing salaries for Forest Specialist 2s to the minimum for a PAT I, which was $38,694.

As of January 31, 2008, there were 26 Forest Specialist 2s. Of these 26, 5 did not meet the minimum salary limits as identified in the bill. Increasing these salaries (and certain benefits) to meet the minimum would result in an increase in expenditures by the DNR of around $13,000 in FY 2009 and $13,260 in FY 2010.

Vehicle Title Information - The bill provides that under certain circumstances, all information concerning the purchase of a vehicle must be completed on the certificate of title, and that the knowing or intentional failure to complete the information on the certificate is a Class A misdemeanor for the first violation and a Class D felony for the second or any subsequent violation. A Class D felony is punishable by a prison term ranging from six months to three years or reduction to Class A misdemeanor, depending upon mitigating and aggravating circumstances. The average expenditure to house an adult offender was $19,185 in FY 2007. (This does not include the cost of new construction.) If offenders can be housed in existing facilities with no additional staff, the marginal cost for medical care, food, and clothing is approximately $1,825 annually, or $5 daily, per prisoner. The estimated average cost of housing a juvenile in a state juvenile facility was $63,138. The average length of stay in DOC facilities for all Class D felony offenders is approximately ten months.

Vehicle Inspection - Not requiring an inspection for vehicles titled outside of Indiana will mean a reduction in staff time for the State Police associated with the inspection of these vehicles. The impact is indeterminable. The funds affected are the state General Fund, the Motor Vehicle Highway Account, and the Motor Carrier Regulation Fund, all of which support the State Police.

Titling Off-Road Vehicles - There will be additional administrative expenditures for the Secretary of State's office based on the assumption that additional dealers would now become licensed. The fund affected is the Motor Vehicle Highway Account.

Abandoned Vehicles - Requiring the removal of a vehicle abandoned on or within the right-of-way of an interstate highway or a highway designated as part of the state highway system within 36 hours will require no additional expenditures for the State Police.

Sales Tax Returns - It is estimated that the DOR will realize an administrative cost savings due to the changes requiring all retailers with a Sales Tax liability under $1,000 in the previous calendar year to file returns annually. The administrative cost savings to the DOR is estimated to be from the decreased data entry and returns processing costs for annual returns versus monthly, quarterly, or semi-annual returns. It is estimated that over 25,000 retailers will be required to file annual returns rather than semi-annual, quarterly, or monthly returns.

The DOR reports that there are currently 60,000 returns filed on an annual basis, under 50 filed on a semi-annual basis, and approximately 25,000 filed on a quarterly basis. All of these retailers have less than $900 of Sales Tax liability per calendar year. The bill would require all of these retailers to file on an annual basis. The bill would also require retailers with Sales Tax liability in the previous calendar year between $900 and $1,000 to file annually rather than monthly as required under current law. The number of files with liability between $900 and $1,000 per year is unknown.

Income Tax Returns -The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the income tax provisions of the bill. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Internal Revenue Code Reference Update* - The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2008. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2007. A noncode section of the bill provides that the changes due to the IRC reference update are effective beginning in tax year 2008. The update would include changes as a result of the following federal acts:

(1) The Small Business and Work Opportunity Tax Act of 2007 (P.L. 110-28), signed into law May 25, 2007.
(2) The Clean Renewable Energy and Conservation Act of 2007 (P.L. 110-140), signed into law December 19, 2007.
(3) The Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142), signed into law December 20, 2007.
(4) The Tax Technical Corrections Act of 2007 (no P.L. number yet), signed into law December 29, 2007.

It is estimated that the fiscal impact from the bill will begin in FY 2009. The estimated fiscal impact of the bill and the federal acts generating the fiscal impact are summarized in the table below. The Clean Renewable Energy Conservation Act and the Tax Technical Corrections Act are not expected to generate a fiscal impact.

Provisions (Revenue impact in millions)	**FY 2009**
Small Business and Work Opportunity Tax Act	(0.16)
Mortgage Forgiveness Debt Relief Act	
Exclusion of discharged principal residence mortgage debt (expires 12/31/09)	(3.0 - 3.5)
Exclusion of benefits paid to volunteer firefighters or EMTs (expires 12/31/10)	(0.35)
Exclusion of gains from home sale by surviving spouse	(0.01)
Subtotal	(3.4 - 3.9)
Total Impact on State Revenue	**(3.5 - 4.0)**

Federal Economic Stimulus Refund Exclusion - This provision is not expected to have a fiscal impact as it is very likely that the advanced refund payments that taxpayers will receive in 2008 from the federal government would otherwise not be taxable under the Indiana individual Adjusted Gross Income (AGI) Tax. The provision specifically excluding the credit and advanced refund of the credit from Indiana AGI ensures that these amounts will not be taxable.

The federal Economic Stimulus Act of 2008 provides for the advanced payment during 2008 of a refundable federal tax credit that taxpayers would claim against federal tax liability when filing their 2008 federal tax return in 2009. As a result, the federal tax credit (and advanced payment of the tax credit) should not affect federal AGI which is the computational starting point for the Indiana individual AGI Tax.

NFL & NCAA Tax Exemption - The bill provides that the existing state and local tax exemption for activities relating to an NFL Super Bowl apply to a Super Bowl conducted after December 31, 2011; and extends the tax exemption to NCAA Men's and Women's Final Fours conducted after December 31, 2011. Under current statute, the state and local tax exemption applies only to a Super Bowl for which Indianapolis submitted a bid in October 2006.

The bill exempts from all state and local taxes: (1) property owned by the NFL and its affiliates, revenue of the NFL and its affiliates, and expenditures and transactions of the NFL and its affiliates in connection with a Super Bowl, and resulting from holding a Super Bowl in Indiana or making preparatory advance visits to

Indiana in connection with a Super Bowl; and (2) property owned by the NCAA and its affiliates, revenue of the NCAA and its affiliates, and expenditures and transactions of the NCAA and its affiliates in connection with a Final Four, and resulting from holding a Final Four in Indiana or making preparatory advance visits to Indiana in connection with a Final Four. The tax exemption applies only to such events conducted in Indiana after December 31, 2011. The bill provides that the exemption does not apply to salaries and wages paid to employees of the NCAA and its affiliates that are ordinarily subject to Indiana state and local income taxation.

The amount of state taxes from the NFL, NCAA, and their affiliates that could potentially be foregone due to this provision is indeterminable. However, this could be offset by a potentially significant increase in other tax revenue generated from the events.

Media Production Expenditure Tax Credit - The bill would limit the revenue loss from the existing tax credit for qualified media production expenditures to a maximum of $5 M. This would <u>reduce</u> the expected revenue loss from this tax credit by $6.2 M to $12.3 M annually. The revenue loss from the current tax credit could potentially begin in FY 2009.

The bill provides that all tax credits for qualified media production expenditures are subject to a $5 M annual cap. Current statute (HEA 1388-2007) provides for a $5 M annual cap for credits claimed by taxpayers making at least $6 M in qualified expenditures during a year, but does not apply the cap to taxpayers making less than $6 M in qualified expenditures.

It is estimated that the tax credit under current statute would result in a revenue loss from existing media production activities of about $11.2 M to $17.3 M annually. The potential revenue loss under current statute from new media production activities is indeterminable.

Sales Tax Exemption for Motion Picture Production Expenditures - This bill will decrease Sales Tax collections by between $280,000 and $375,000 in FY 2009, and between $675,000 and $900,000 in FY 2010. This bill extends the Sales Tax exemption for property purchased for use in motion picture productions from purchases made before January 1, 2009, to purchases made before January 1, 2012. The amount of the decrease in Sales Tax collections could be less than the amount stated above due to the provision in current law that disallows a taxpayer from using this exemption and receiving the Media Production Expenditure tax credit for the same expenditures.

Excise Tax on Non-Business Personal Property - Assuming that the BMV administers the collection of the excise tax on these non-business personal property similar to the collection of auto excise taxes, BMV could receive additional revenue from allowable service charges.

Sales Tax on Flying Lessons - According to DOR, this provision codifies how these transactions are currently treated during the administration of the Sales Tax. Therefore, it is estimated that there will be no fiscal impact due to this provision.

Utility Receipts Tax - The provisions of this bill relating to the wholesale sale of utility services will cause an indeterminable decrease in state URT collections. The amount of the impact is indeterminable and will ultimately depend upon the number of utilities that are selling natural gas to a buyer that is consuming the natural gas in the direct production of electricity to be sold by the buyer of the natural gas.

Cigarette Tax - This bill requires a cigarette distributor to be current in all listed taxes before a distributor's license may be issued or renewed. According to DOR there are 120 cigarette distributors currently licensed in Indiana. This provision will only have an impact to the extent that more taxes are collected due to this license issuance and renewal requirement. The amount of any impact is indeterminable.

Professional Tax Preparer Electronic Filing Requirements - The bill delays, until after December 31, 2010, the imposition of penalties upon professional preparers who fail to comply with the requirement to file returns electronically. To the extent that any penalties would have been collected under current law before CY 2011, there will be a decrease in state revenue. The amount of any possible decrease is indeterminable.

529 Education Savings Plan - The bill provides that if a taxpayer makes a nonqualified withdrawal from a college choice education plan and is a nonresident who has no current tax liability, the DOR shall bill the taxpayer for the amount of any tax credit to be recaptured. This provision should allow DOR to collect these credits sooner.

Earned Income Tax Credit (EITC) - The bill reduces the EITC for partial year nonresidents who have taxable income in other states. It requires that a nonresident taxpayer multiply the value of the credit under current law by the percentage of their income taxable in Indiana. The potential revenue savings by not allowing partial year nonresidents the full EITC is indeterminable.

Income Tax Withholding - The bill requires wage withholding payments and estimated tax payments for nonresident aliens to be computed based on the application of not more than one personal exclusion. The increase or decrease in exemptions claimed on nonresident aliens' final tax returns, and the associated dollar amount, is unknown. The fiscal issue is that of compliance and timing. State revenues may increase an indeterminable amount during the tax year due to withholding payments and estimated tax payments for nonresident aliens being computed based on the application of only one exemption. However, should nonresident aliens have more than one legitimate personal exemption, they may still be claimed on the taxpayer's final return. The result could be a potentially insignificant net impact on state revenue.

Tax Penalties -The fiscal impact of this provision is indeterminable. Revenues would be subject to administrative action. This provision is effective beginning in tax year 2009. Thus, any fiscal impact would likely commence in FY 2010. Revenue from penalties is placed into the state General Fund. Should the DOR administer the new penalty provision in the same way as those penalties under IC 6-8.1-10-3 the result could be a potentially insignificant net impact on state revenues. Under IC 6-8.1-10-3, if an individual does not file a return within 30 days the DOR may file a return on behalf of the individual. The fine is 20% of the unpaid tax.

Municipal Riverfront Development Project Areas - The amount of the increase in alcoholic beverage permit fee revenue due to allowing certain towns to designate MRDPA's is indeterminable. IC 7.1-3-20-16(d) allows the ATC to grant alcoholic beverage permits outside the statutory permit quotas to certain premises located within an MRDPA. The increase in permit fee revenue will ultimately depend upon the number of MRDPA's established under the bill, and the number of qualifying applicants that receive alcoholic beverage permits within the MRDPA. The fee for a one-way permit is $500, a two-way permit $750, and a three-way permit is $1,000. The fee revenue is initially deposited in the Excise Fund and then distributed 37% to the state General Fund, 33% to the general funds of cities and towns, and 30% to the ATC's Enforcement and Administration Fund.

Vehicle Title Information - See Explanation of State Expenditures for description of provision. If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General

Fund would increase. The maximum fine for a Class A misdemeanor is $5,000, while the maximum fine for a Class D felony is $10,000. Criminal fines are deposited in the Common School Fund.

If the case is filed in a circuit, superior, or county court, 70% of the $120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund. In addition, some or all of the document storage fee ($2), automated record keeping fee ($7), judicial salaries fee ($17), public defense administration fee ($3), court administration fee ($3), judicial insurance adjustment fee ($1), and the DNA sample processing fee ($1) are deposited into the state General Fund.

Background on IRC Reference Update - The Small Business and Work Opportunity Tax Act includes various provisions relating to the tax treatment of Subchapter S Corporations. The Mortgage Forgiveness Debt Relief Act includes provisions excluding from gross income: (1) any income received by a taxpayer by reason of discharge, either in whole or in part, of debt on the taxpayers' principal residence (see discussion below); (2) up to $500,000 of the gain from the sale of a principal residence by a surviving spouse if the sale takes place within two years of the death of the spouse; and (3) benefits provided to volunteer firefighters and EMS personnel (see discussion below).

Mortgage Discharge Exclusion: The exclusion for discharged mortgage debt is effective under the bill beginning in 2008 and expires at the end of 2009. Thus, the revenue loss under the bill would occur in FY 2009 and FY 2010. It is important to note that the revenue loss from the mortgage discharge exclusion could be higher than the estimate provided in the table due to the following factors:

(1) The annual number of foreclosure sales occurring in 2008 and 2009 is higher than recent levels. The revenue loss estimate assumes 3,000 to 3,500 foreclosure sales based on 2007 totals.
(2) The debt amounts being forgiven by creditors on average are more than assumed for the revenue loss estimate. The revenue loss estimate assumes an average of $30,000 in debt forgiven on foreclosure sales.
(3) Mortgage debt is forgiven by creditors under circumstances other than foreclosure sales such as short sales of homes prior to commencing foreclosure proceedings. The number of short sales transactions and other debt forgiveness that may occur is indeterminable.

Volunteer Firefighter/EMS Personnel Exclusion: The exclusion for benefits paid to volunteer firefighters and EMS personnel is effective beginning in 2008 and expires at the end of 2010. Thus the revenue loss from this exclusion would occur from FY 2009 through FY 2011. The exclusion is limited to $360 per year per volunteer firefighter or EMT. It is estimated that there are approximately 20,000 volunteer firefighters, 8,000 volunteer EMTs, and 500 volunteer paramedics statewide that could potentially qualify for the exclusion.

Explanation of Local Expenditures: *Excise Tax on Non-Business Personal Property* - This bill requires county auditors and assessing officials to provide the BMV and the DOR with the information from personal property tax returns needed to implement the bill's provisions. Expenditures would be subject to both administrative and legislative actions.

Municipal Riverfront Development Project Areas - There could be an increase in administrative costs to a town that establishes an MRDPA as allowed under the bill.

PERF Minimum Payment - The estimated increase in unfunded accrued liability for CY 2009 is $9.6 M due to the $180 monthly minimum provision. The increase in annual funding required $740,000, representing 0.03% of payroll

Refunds and reconciling statements for Marion County: This bill authorizes the Marion county treasurer to mail refunds on 2007 property taxes and reconciling statements in the same envelope. The county has not completed its reassessment at this time. Estimates from OFMA property tax database indicate there are approximately 209,000 taxpayers who are currently eligible for the homestead credit and could potentially be eligible for a refund. If each receives a refund, the reduction in processing costs to the county (assuming 41 cents for postage and 4 cents per envelope) could be as high as $94,000.

Extension of State Board of Finance Mandate: Under current law, the State Board of Finance may grant an interest free loan to qualified taxing units that would probably experience revenue shortfall due to a taxpayer defaulting on tax payments. This bill extends the board's mandate from December 31, 2007 to December 31, 2009.The fiscal impact would be the potential additional interest costs taxing units would have incurred if the mandate had not been extended and these units had to borrow on the open market. The current prime rate is about 6 percent.

Loans to School Corporations: This bill authorizes the State Board of Finance to grant loans of up to $6M to school corporations that experience revenue shortfalls in CY 2007 or CY 2008 because property tax payments were delayed. The loan must be repaid within 72 months. The school corporation cannot file an excessive levy appeal to repay the loan. This could potentially result in substantial savings in interest costs for school corporations as the interest rate charged by State Board of Finance cannot exceed 1 percent (the rate that banks charge their favorite customers is about 6 percent).

Economic Improvement Projects: Under current law, an economic improvement project board may issue taxable or tax-exempt bonds. This bill authorizes the board to also issue revenue bonds if it so chooses. In general, revenue bonds have a higher interest rate than tax-exempt bonds so the cost to the board would be higher.

Vehicle Title Information - See Explanation of State Expenditures for description of provision. A misdemeanor is punishable by up to one year in jail. If more defendants are detained in county jails prior to their court hearings, local expenditures for jail operations may increase. The average cost per day is approximately $44.

Motor Vehicle Excise Tax: Removing a provision in the motor vehicle excise tax law requiring excise taxes to be deposited in a separate account within a depository will have no fiscal impact.

Abandoned Vehicles: Requiring the removal of a vehicle abandoned on or within the right-of-way of an interstate highway or a highway designated as part of the state highway system within 36 hours will require no additional expenditures for local law enforcement agencies.

The Indiana Sheriffs' Association reports that there may be a few sheriffs in the state who charge for the inspection, therefore resulting in the potential loss of revenue of an indeterminable amount.

Explanation of Local Revenues: *Internal Revenue Code Reference Update* - The IRC update could potentially affect taxable income of individual taxpayers. The impact on counties imposing local option income taxes is indeterminable and would vary.

NFL & NCAA Tax Exemption - The bill exempts the NFL and its affiliates from all local taxes in connection with or resulting from a Super Bowl conducted in Indiana after December 31, 2011; and provides the same exemption for the NCAA for Men's and Women's Final Fours conducted in Indiana after that date. (See discussion in Explanation of State Revenues.)

The bill also provides that the Marion County Admission Tax (equal to 6% of the price of admission to events at certain venues including Lucas Oil Stadium once it is open) does not apply to a Super Bowl or Final Four conducted after December 31, 2011. The amount of local taxes from the NFL, NCAA, and their affiliates and the amount of admission tax that could potentially be foregone due to these provisions is indeterminable. However, this could be offset by a potentially significant increase in other tax revenue generated from this event.

Excise Tax on Non-Business Personal Property - Under current law, RVs and truck campers and other recreational vehicles are assessed as non-business personal property. Taxpayers must list this property on an individual-owned property tax return filed with the township assessor. The assessed value of this property becomes part of the tax base, and the taxpayer pays property tax on the non-business property based on the prevailing property tax rate where the property is located. This bill would remove this class of property from property taxation and instead require that the owners of this class of property pay an excise tax beginning in CY 2010.

Based on taxing county-level assessment summaries and estimated 2010 tax rates, the CY 2010 net property tax on non-business personal property is estimated at $19.1 M. The property tax base would be reduced by approximately $802 M.

According to BMV records, there were 37,196 RVs registered in Indiana in 2006. That number has decreased approximately 26% from 2004. The number of truck campers, all-terrain vehicles, travel trailers, snowmobiles, rowboats, canoes and other non-motorized boats is not known at this time. Because the breakdown of recreational vehicles by number, age, and original price is unknown, *the revenue generated from the excise tax rate structure cannot be estimated.*

In CY 2010, the DLGF is authorized to reduce maximum permissible levies to account for the removal of non-business personal property. This provision would ensure that property tax rates remain unchanged and that no tax shifting occurs between owners of non-business personal property and owners of other property. Local taxing units may, however, file an excessive levy appeal to mitigate the effects of the assessed value reduction.

Depending on the actual amount of revenue generated from the excise tax on non-business personal property, total local revenue could be the same, higher, or lower under this bill.

Municipal Riverfront Development Project Areas - To the extent that alcoholic beverage permit fee collections increase, there will be an increase revenue distributed to the general funds of all cities and towns.

Late Excessive Levy Appeals: Under current law, a civil taxing unit or school corporation which is projected to have insufficient revenue for next year's budget may file an excessive levy appeal with the local government tax control board. If the reason for the shortfall is an error in assessed value estimates, the deadline for the appeal is December 31 of the current year. For taxes first due and payable in 2008, this bill extends the filing deadline for the appeal from December 31, 2007 to May 1, 2008. If the appeal is approved, the deadline for the DLGF to certify budgets, tax rates and tax levies, for the county to mail tax statements and for taxpayers to pay their taxes is waived.

Tax payments are usually due on May 10 and November 10. If this proposal causes tax payments to be delayed, it could have a negative impact on the operating budgets of some local taxing units and school corporations. Some units may have to borrow funds to meet current obligations resulting in increased expenses for interest payments. The severity of the impact would depend on how long tax payments are delayed. This provision expires January 1, 2009.

Property Tax Exemptions:

a. *Limited Liability Companies:* Under current law, a non-profit corporation, which after CY 2000 failed to file for a property tax exemption on time, may be reimbursed for any property taxes it paid if it is otherwise eligible to receive the exemption. This bill extends this provision to a nonprofit limited liability company. The property owner has to file for the exemption with the county assessor. The county auditor would refund without interest any taxes paid.

b. Churches and Religious Societies: Under this proposal, a church or religious society may receive a property tax exemption for taxes payable in CY 2004, CY 2005, or CY 2006, if:

1. The entity failed to timely file the application for taxes payable in 2004, 2005, or 2006;
2. The property would have been eligible for the exemption if the applications had been filed; and
3. The property was subject to taxation.

The property owner would have until June 30, 2008 to file the application for exemption. The county property tax assessment board of appeals would grant the exemption if the property owner meets the above conditions. If the taxes have been paid, the property owner would be entitled to a refund, without interest. Property tax refunds are paid from current year property tax collections. Taxing units may transfer available money from their levy excess funds to other funds to cover the refunds.

The number of property owners and the amount of tax affected by this bill is not known. At least one taxpayer has been identified in St. Joseph County that would be affected by this provision. The tax for this taxpayer totals $28,000 for years in question.

Amended Property Tax Returns - Under the bill, amended returns that were submitted for filing from January 1, 2008 through March 31, 2008, for 2004 Pay 2005 taxes, 2005 Pay 2006 taxes, and 2006 Pay 2007 taxes would be allowed. Taxpayers would be entitled to exemptions claimed on the inventory schedule and on the 103-W (warehouse exemption return).

The bill would also nullify a notice of increased assessed value (AV) from the township assessor. Penalties and interest would not apply to the net increase in taxes resulting from the amended return. In addition, the bill provides that the taxpayer is not entitled to a refund with respect to an amended return filed by the taxpayer.

There is at least one known taxpayer in Marion County that would be affected by this bill. The taxpayer received an increase in the assessment of inventory due to an audit. The increase in net taxes for all three years is unknown. Under current law, the taxpayer does not qualify for exemptions since they were not claimed on a timely filed original or amended return. The taxpayer must pay the entire additional tax bill, plus interest at 10% per year.

Under this bill, the taxpayer would only be required to pay the portion of the tax bill that applies to the non-exempt portion of the added AV. This payment would be without interest. The taxpayer's additional tax liability would be reduced if the amended return is allowed by this bill.

It is unknown whether there are any other taxpayers that could be affected by this provision.

Fire Protection District Excess Property Tax Levy: This bill authorizes the Honey Creek fire protection district to appeal to the DLGF to increase its maximum property tax levy by up to $212,500 for taxes payable in 2009. If the appeal is approved, the district would be able to include this additional funding in its 2009 levy when computing its maximum levy for taxes payable in CY 2010.This would increase the tax rate in CY 2009 by a maximum of approximately $0.2577, and in CY 2010 by approximately $0.2492.

Common Areas: Under this bill common areas shared by manufactured homes or mobile homes within mobile homes parks would be considered to be residential property (instead of commercial property) for purposes of calculating the property tax circuit breaker credits. The net tax to gross AV threshold used for residential property is 2.5% (rather than 3.5%) in CY 2009 and 2.0% (rather than 3.0%) for each year beginning in CY 2010.

Vehicle Inspection: The Indiana Sheriffs' Association reports that there may be a few sheriffs in the state who charge for the inspection, therefore resulting in the potential loss of revenue of an indeterminable amount.

State Agencies Affected: Department of Local Government Finance; Bureau of Motor Vehicles; Department of Insurance; Department of State Revenue; Department of Natural Resources; Public Employees Retirement Fund; State Budget Agency.

Local Agencies Affected: County Auditors; counties with local option income taxes; cities and towns; area health education centers.

Information Sources: Realtytrac, http://www.realtytrac.com/. STATS Indiana, http://www.stats.indiana.edu/. U.S. Census Bureau, http://www.census.gov/. U.S. Congress, Joint Committee on Taxation, http://www.house.gov/jct/tableofcnts.html. Michelle Milliken, Indiana Department of Homeland Security, (317) 234-0945. Joanna Cornwell, Indiana Department of Homeland Security, (317) 234-4554; Local Government Database; Dollyne Sherman, BMV, 317-233-0216. Internal Revenue Service, Statistics of Income: Sole Proprietorship Returns (2000 to 2004). 2002 Economic Census. 2004 County Business Patterns.

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